

## **Budget Tidbits... just the facts**

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Senate Ways & Means**

### **Budget Brief #3: (2/26/09)**

### **Yes, We Can!\***

*\*Solve the state budget deficit without raising taxes...*

### **I. Explaining \$8.3 Billion Figure: Government as Usual**

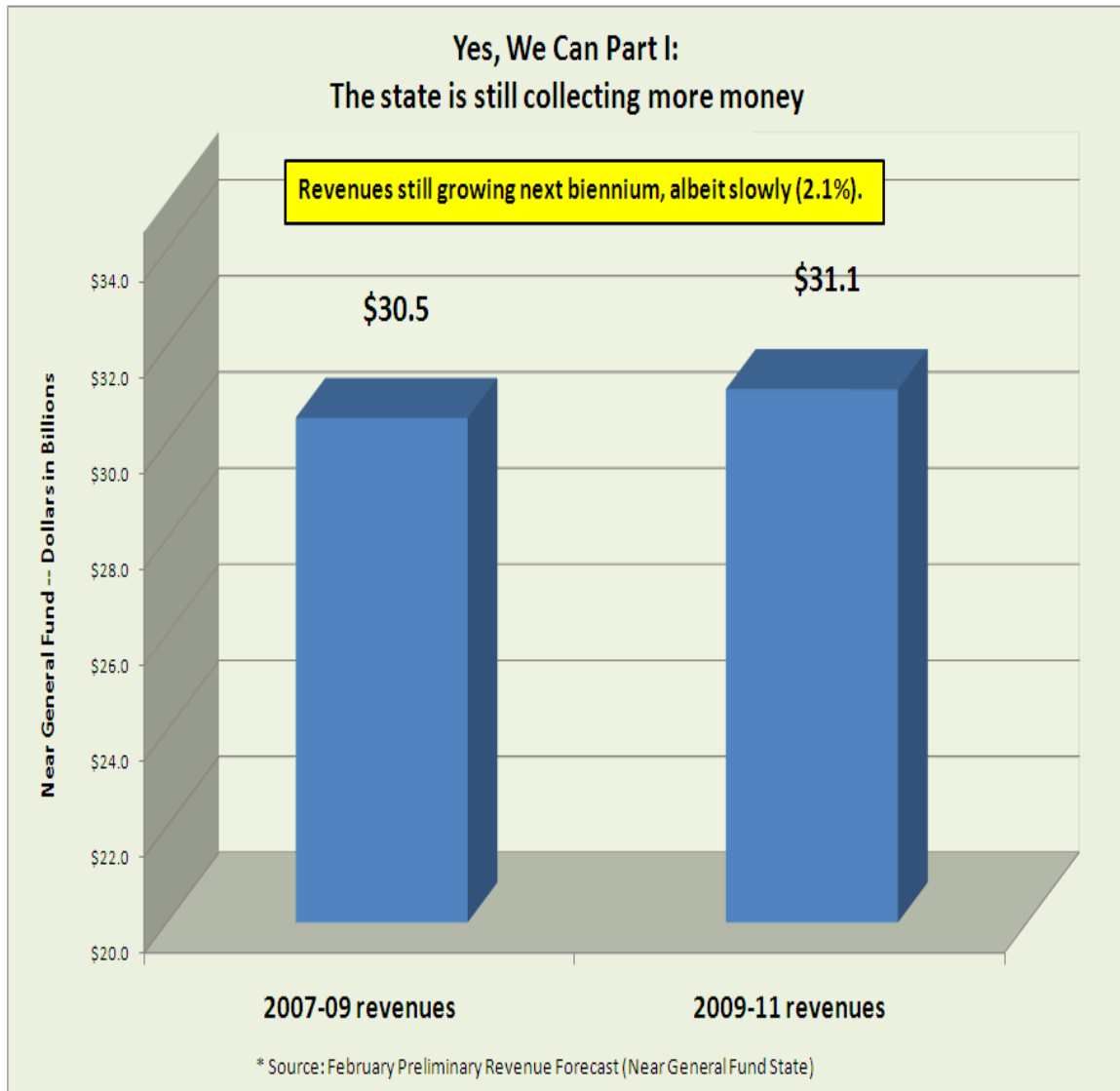
The deficit has been characterized as \$8.3 billion. This is composed of:

- A \$1.3 billion deficit in the current biennium, which ends June 30th;
- A \$6.5 billion shortfall next biennium if we do not address the current biennium deficit, continue doing everything government currently is doing, plus do new policy enhancements;
- An assumption of the need for a \$500 million ending fund balance.

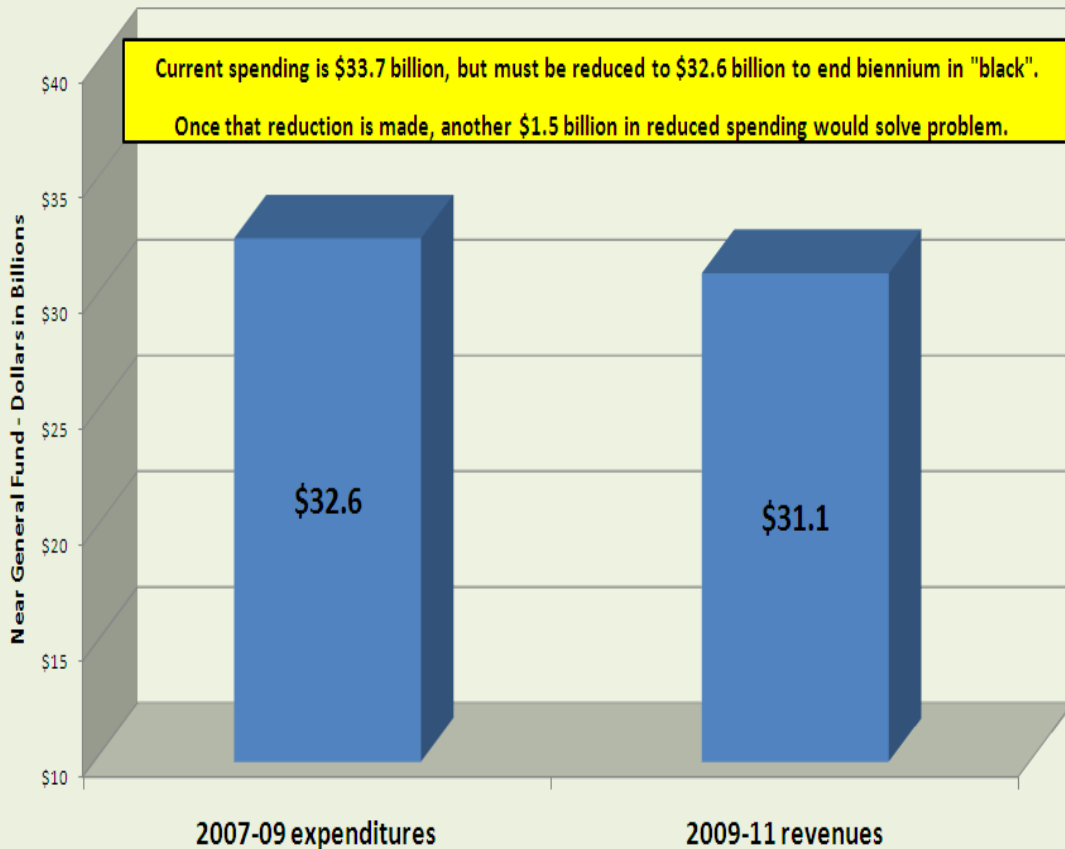
But keep in mind about this figure:

- \$1.4 billion represents proposed policy enhancements and compensation increases, including maintaining employees' health care benefits at 12% and providing COLAs and step-salary increases.
- It assumes the current-biennium budget deficit remains unaddressed. Some savings have already in fact been achieved with passage of a mini-supplemental budget (ESHB 1694) last week.<sup>1</sup>
- It assumes no federal money is available to reduce the deficit. Likely, there will be around \$3.1 billion available to the operating budget.<sup>2</sup>
- It assumes the constitutional rainy day fund, which will contain \$700 million, is not utilized to address the problem.

## II. Putting State Revenues & Expenditures in Context



## Yes We Can, Part II: Marginal reductions from current spending level can solve problem



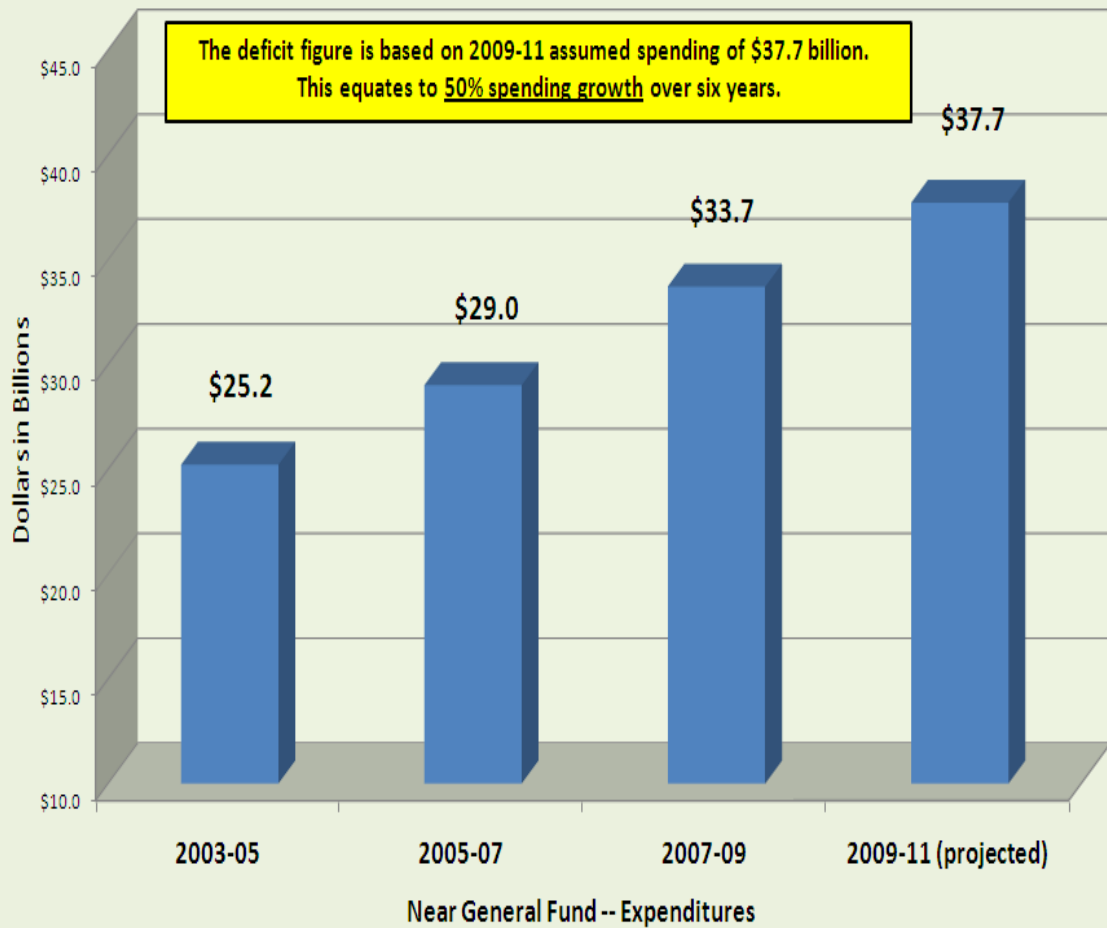
\* ESHB 1694 signed into law last week reduced appropriation to \$33 billion, but failed to account for caseload adjustments. Absent full accounting of biennial costs, the text box reference to current spending reflects the 2008 supp. budget enacted last session.

**\*Note:** While the chart is illustrative of the real dollar spending reduction needed, there is carry-forward and entitlement caseload growth in such areas as K-12, medical assistance, and corrections to take into account, plus provision for a \$500 million reserve. These bring the budget gap to \$4.1 billion.

The difference between that figure and the \$8.3 billion is the latter assumes:

- (a) the current biennium's budget is never balanced;
- (b) that unbalanced spending level is carried forward into next biennium;
- (c) growth in maintenance items that are discretionary, not entitlements; and
- (d) new policy and compensation increases.

**Yes We Can, Part III:**  
**"Deficit" figure based on historically untenable spending growth**



Source: LEAP (2003-05 based on 2004 supp.; 2005-07 based on actual spending; 2007-09 from 2008 supp)

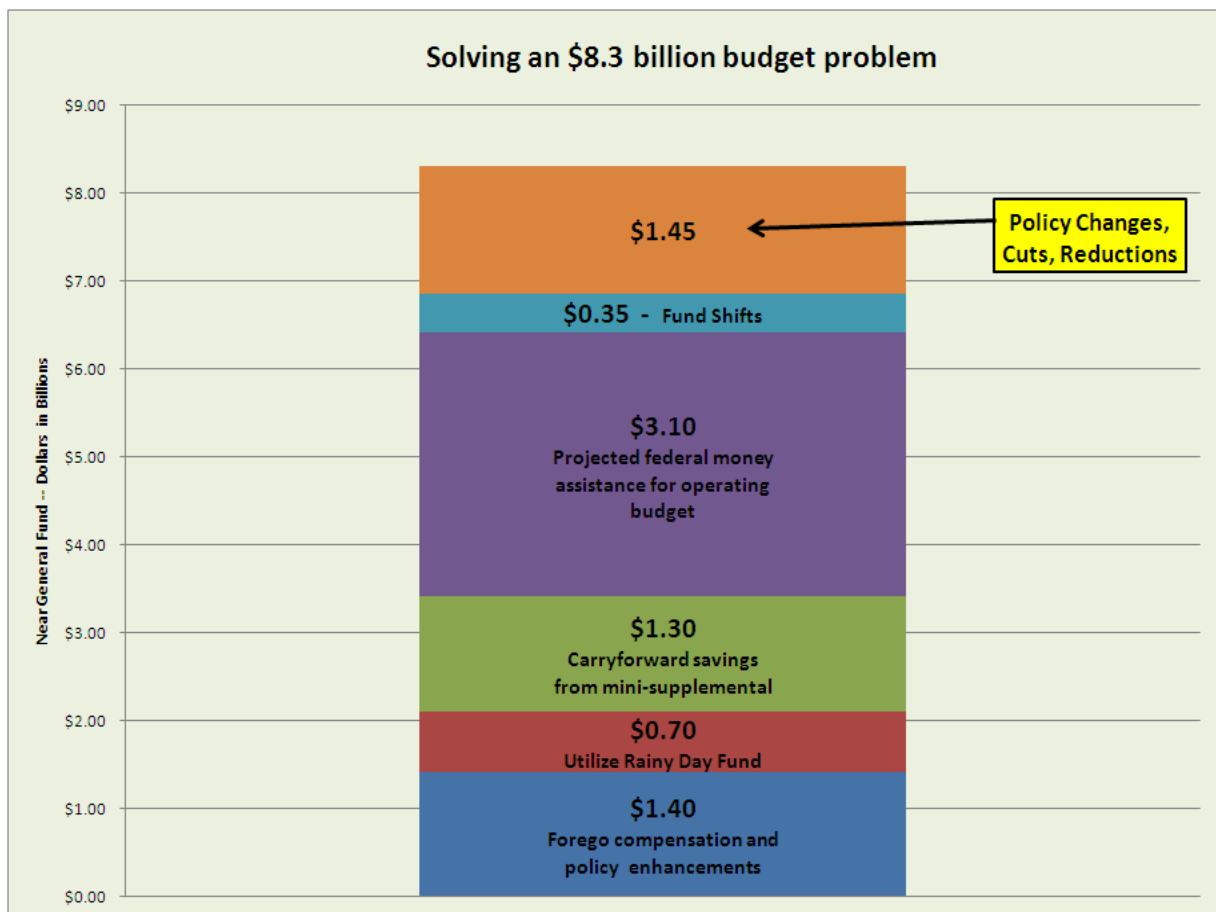
### **III. But Let's Play The Game . . . Solving an "\$8.3 Billion" Problem**

So, once the current biennium's deficit is addressed, state spending needs to be reduced in real dollars by \$1.5 billion to be in balance -- not \$8.3 billion.

This is contrary to what most people believe when they hear \$8.3 billion -- namely, that spending must be reduced by \$8.3 billion from current appropriations. Simply not true.

Even accounting for entitlement caseload growth and providing a responsible reserve, the gap is \$4.1 billion. The only way to get to an \$8.3 billion figure is to assume the current biennium's deficit does not get balanced, that the unbalanced spending level carries forward into next biennium, that maintenance level growth in discretionary items – not just entitlements – are funded, and new policies and compensation increases are funded.<sup>3</sup>

That said, let's use the \$8.3 billion figure to demonstrate it is possible to address this problem without tax increases or decimating services for the most vulnerable.



**So, in short, \$1.45 billion in policy changes, cuts, or reductions to existing programs are needed in order to balance the budget.**

Keep in mind, of course, that sound fiscal policy dictates more savings should be achieved as the federal money is one-time.

To that end, offered below are more than twice the "necessary" \$1.45 billion in savings, belying the need for such federal reliance. And this is just a partial list of options.

### **Identifying \$1.45 billion – and much, much more – in savings**

#### **A. Amendment to Mini-Supplemental ("20 Ideas") -- Savings of \$810 million**

Senate Republicans offered an amendment to ESHB 1694 ("Mini-Supplemental") that contained twenty ideas which were priced out by non-partisan staff to save more than \$800 million.<sup>4</sup> The amendment was rejected, but the ideas are still viable.

They include stopping the transfer of tobacco settlement funds to the Life Sciences Discovery Fund, terminating state anti-smoking expenditures, implementing more stringent welfare reform sanctions, rolling back recent vendor rate increases, deporting illegal-alien offenders, more frequent verification of children's health care eligibility, freezing enrollment in the Basic Health Plan, maintaining eligibility for children's health coverage at 250% of Federal Poverty Level, and stopping the state subsidy of career higher education students.

#### **B. Discretionary maintenance items -- Savings of \$525 million**

Removed from typical maintenance level are caseload and inflationary growth in non-entitlement state-only programs. Additionally, for K-12 and human services entitlement programs, funding would be provided for caseload growth, but not inflation. Finally, this approach removes funding requested by state agencies for most other "inflationary" type adjustments. This includes such things as leases, equipment replacement, worker compensation charges, maintenance costs, and information technology charges. Agencies are assumed to cover these costs by becoming more efficient and reducing administrative costs of doing business.

#### **C. Other policy ideas -- Savings of more than \$1.6 billion**

- Terminate or Modify General-Assistance Unemployable Program (Up to \$400 million) -- Washington is one of 18 states with a program for the temporarily unemployable and the only one in the Northwest.<sup>5</sup> Designed as temporary assistance, the program has no time limits for benefits. Caseloads have grown by over 14 times population growth in the last eight years, and the

program now approaches the total state funding for all four-year regional higher education institutions in the state. Terminating the program would save \$400 million; alternatively, a sizable amount could be saved via a six-month time limit.

- Learning Improvement Days (\$123 million) -- The state budget in 2007-09 authorized three non-classroom paid days for math and science teachers to improve their instruction skills. This was in addition to the two non-classroom days the state funds for all teachers. Eliminating these days saves the amount above.
- Eliminate State Funding of All-Day Kindergarten (\$84 million) -- In 2007-09 the state began phase-in funding of all-day kindergarten. Currently 20% of districts receive state funding for all-day kindergarten. Funding all districts is a \$400 million per biennium proposition. Returning to the pre-2007 policy would save \$84 million.
- Bilingual Education Reform (\$40 million to \$60 million) -- One of the fastest growing programs in state government is bilingual education, with enrollment growing at 10 times the rate of basic K-12 education.<sup>6</sup> This growth far exceeds census projections of minority growth. Length of stay has been increasing as districts receive additional funds for bilingual students; average stay now approaches three years.<sup>7</sup> A one-year sheltered-immersion program is used in California, Arizona, and Massachusetts. Studies show at least the same educational benefit and in fact a slightly better outcome with such an approach.<sup>8</sup>
- Eliminate Health Coverage for Illegal Immigrant Children (\$61 million) -- In 2007-09 the state expanded coverage for non-citizen children from 100% Federal Poverty Level to 300% FPL. State spending is \$72 million, but savings would be \$61 million as emergency services would still be covered under the federally-matched alien emergency medical program.
- Streamline Sales Tax Mitigation Payments (\$65 million) -- In 2007-09 the state switched its sales tax sourcing provisions. To offset local impacts the state agreed to make mitigation payments to local governments.
- Basic Health Plan Reform -- Touted as a plan for uninsured, low-income citizens, the Basic Health Plan requires none of the above. Individuals may be insured and switch onto the BHP -- indeed, a recent audit found nearly half the enrollees had insurance prior to enrolling in the BHP and the primary reason for doing so was the lower cost.<sup>9</sup> Non-citizens are also eligible. Plus, while there is an income limit, there is no asset limit, meaning a trust-fund millionaire could qualify.

- Free & Reduced Price Lunch Fraud (*Tens of millions, possibly higher*) -- The state provides additional funds to districts for free and reduced price lunch-eligible students, totaling over \$250 million next biennium. Districts have a strong incentive to sign people up but little incentive to verify eligibility. Despite a decline in the statewide poverty rate, the percent of students districts certify as free/reduced eligible has climbed from 30 percent to 38 percent in the last decade.<sup>10</sup> A recent selective audit in Pierce County resulted in the discontinuance of benefits for over 80 percent of students.<sup>11</sup>
- Liquor Sales Profit Sharing (\$52 million) -- The state imposes sales tax on liquor. The state shares 35% of the resulting revenue with local governments. This local sharing could stop and profits could be wholly retained by the state.
- Corrections Reform (\$25 million to \$50 million) -- Increase number of offenders serving time out-of-state; increase valuation threshold for property crimes; and reform supervision.
- Tort Reform (\$40 million) -- The state pays \$150 million per biennium into the tort liability account, an amount several times higher than a decade ago. The 2003-05 Senate budget assumed \$40 million in savings from eliminating joint and several liability for tort claims against the state, plus putting a \$1 million per claim limit on judgments payable absent a specific legislative appropriation.<sup>12</sup> The enabling bill did not pass the House.
- Higher Education -- Non-Instruction Reduction, Plus Offset State Support with Tuition Increase (\$150 million) -- The 2003 Senate budget proposed a \$45 million reduction to non-instruction higher education programs, plus reduced state support by more than \$100 million; the reduction was to be offset via a tuition increase, so institutions' overall funding was not reduced.<sup>13</sup>
- Initiative 728 -- Limit Spending to Class Size Reduction Efforts (\$364 million) -- Nearly 40% of I-728 expenditures are for non-class size reduction efforts, such as professional development, extended learning opportunities, and early assistance.
- Competitive contracting (*other states -- tens of millions in savings*) -- In 2002 the Legislature authorized state agencies to competitively bid services. The provisions have not been utilized. A Competitiveness Council in Virginia identifies services that could be performed or bid on competitively in the private sector; it has yielded over \$40 million a year in estimated savings.<sup>14</sup>
- Freeze Legislative and Judicial Budgets (\$23 million) - Maintaining legislative and judicial budgets at the 2007-09 operating level saves the amount above.



- CTED Assorted Activities (\$37 million) -- Reduces funding for a variety of items associated with the Department of Community, Trade and Economic Development, including tourism, international trade offices, public broadcast grants, and growth management technical assistance to local governments.
- Office of Superintendent of Public Instruction -- Central Programs (\$48 million) -- The governor proposed this amount of reductions to various non-basic education programs funded through OSPI.
- Economic Services Changes (\$20 million) -- Repeals a 2007-09 enhancement to the Temporary Assistance to Needy Families (TANF) cash grant.

This is not to say any of these programs is not nice to have, good or beneficial. But in these economic times the question is not one of what state government wants to do, but rather what it must do. The priorities of state government must be to fund basic education and protect the most vulnerable. Other programs must be foregone, much as families throughout Washington are doing.

Further, this should be viewed as just a partial list of the options available to legislators. Several ideas are omitted. A budget is a product of hundreds upon hundreds of decisions.

The intent of this exercise is to demonstrate – contrary to the overheated rhetoric and doomsday scenario painted by some – it is possible to prioritize state expenditures and balance the budget while still protecting services for the most vulnerable.

### **Bottom Line**

Can we solve the budget without raising taxes or jeopardizing services for the most vulnerable in society?

Yes, we can!

1. ESHB 1694 contained \$291 million in policy reductions, carrying forward these savings nets an add'l \$1 billion in 2009-11.
2. Ways & Means presentation 2/23/09.
3. The \$8.3 billion figure assumes the nearly \$1.3 billion deficit in 2007-09 is not addressed; as a result, the starting point for 2009-11 spending is \$33.7 billion, not the \$32.6 billion of 2007-09 resources, thus contributing another \$1.1 billion to the problem in 2009-11; there are \$525 million of discretionary maintenance growth items funded; and there are just under \$1.4 billion of policy and compensation increases funded.
4. See 1694 S.E. AMS ZARE MOOR 014. (There were 21 ideas offered, one of which was a salary freeze and has been backed out of the analysis, since that savings is accounted for in the "forego policy and compensation increases" part of the chart.)
5. Ways & Means presentation 2/11/09, p. 20 of staff presentation.
6. Preliminary caseload forecast figures for FY 2010 & 11. This continues a several year trend.
7. See Zarelli tidbit "Bilingual Education" (2/28/05), citing Washington Institute for Public Policy study on "English Language Learners in K-12: Trends, Policies & Research in Washington State", January 2005.
8. *Id.*
9. "Basic Health Plan Study, Part II: Who is Enrolled? What Services do they use?" Nov. 2006, JLARC
10. OSPI report card: comparing October 1997 to October 2007.
11. OSPI email from George Sneller, 1/24/07. Of 474 individuals checked, 398 had their enrollment discontinued due to non-response or deemed ineligible.
12. Senate 2003-05 Operating Budget Highlights, p. 4 (Apr. 4, 2003).
13. *Id.*, p. 20.
14. Manhattan Institute, "Private Competition in New York State: An Unfinished Agenda", Dec. 2003 (citing CCC exec. director)